

# CURRENTS

WESTERN CANADA'S ECONOMIC BULLETIN

CanadaWest  
FOUNDATION

VOL. 2011 | NO. 5

MINERAL PROSPECTING

MINING OUTPUT AND PRICES

CLARIFYING INVESTMENT RULES

## Monthly Highlights

### Is Canada headed for another recession?

For the first time in two years, the Canadian economy dipped into negative territory in the second quarter of 2011. This drop was largely the result of unforeseeable circumstances. Most indicators of domestic demand were solid, but wildfires in the Slave Lake area in May resulted in major supply disruptions in the oil and gas sector. This contributed to a sharp drop in exports in May and, in turn, negative GDP growth.

Since that time, more clouds have appeared on the horizon. Debt crises in Europe and weakness in the US have weighed on stock markets and commodity prices, contributing to an uncertain global economic outlook.

Western Canada has not been immune to this uncertainty. Employment fell in August as declines in BC and Saskatchewan more than offset increases in Alberta and Manitoba. This loss only adds to recent labour market weakness in the region. Except for in Alberta, where employment has grown at a 4.2% clip, there have been no net job gains in the West since August 2010.

On the bright side, consumer prices have fallen off since May, owing to a decrease in energy prices over the summer; the

| Monthly Economic Statistics                     | BC     | AB       | SK     | MB     | Canada | Reference Month |
|-------------------------------------------------|--------|----------|--------|--------|--------|-----------------|
| <b>Labour Markets</b>                           |        |          |        |        |        |                 |
| Employment (000s)                               | 2,268  | 2,110    | 524    | 623    | 17,339 | August          |
| % change from previous month                    | -0.3   | 0.3      | -0.6   | 0.1    | 0.0    |                 |
| Unemployment rate (%)                           | 7.5    | 5.6      | 4.5    | 5.4    | 7.3    | August          |
| change in percentage points from previous month | 0.2    | 0.1      | -0.4   | -0.3   | 0.1    |                 |
| Participation rate (%)                          | 64.8   | 74.1     | 68.5   | 68.9   | 66.7   | August          |
| Average weekly earnings (\$)                    | 849.69 | 1,041.45 | 854.60 | 809.81 | 876.27 | June            |
| % change from previous month                    | 0.9    | 0.5      | 0.4    | -0.4   | 0.3    |                 |
| <b>Inflation</b>                                |        |          |        |        |        |                 |
| Consumer Price Index (% change from July 2010)  | 1.7    | 1.9      | 2.8    | 3.1    | 2.7    | July            |
| <b>Economic Activity</b>                        |        |          |        |        |        |                 |
| Retail trade (\$M)                              | 4,948  | 5,243    | 1,363  | 1,361  | 37,771 | June            |
| % change from previous month                    | 0.4    | -0.3     | 2.4    | 0.4    | 0.7    |                 |
| Wholesale trade (\$M)                           | 1,810  | 1,246    | 4,199  | 5,947  | 47,782 | June            |
| % change from previous month                    | 3.6    | 3.6      | -1.9   | 3.0    | 0.2    |                 |
| Manufacturing sales (\$M)                       | 3,113  | 5,585    | 1,082  | 1,335  | 45,308 | June            |
| % change from previous month                    | 0.6    | -0.9     | 0.7    | 3.9    | -1.3   |                 |

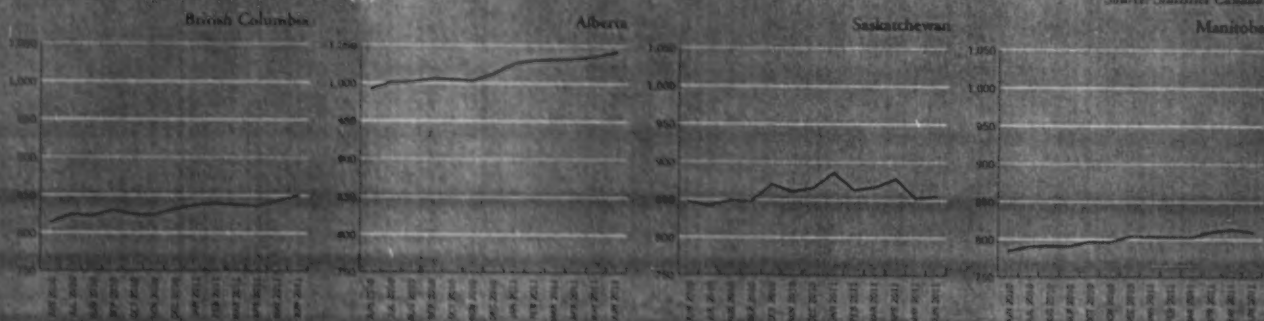
Unless otherwise noted, data are seasonally adjusted.  
Source: Statistics Canada

national inflation rate fell from 3.7% in May to 2.7% in July. This is good news for the Bank of Canada, which has recently signaled its intent to hold interest rates steady into the foreseeable future in an effort to stimulate economic growth.

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## AVERAGE WEEKLY EARNINGS (\$)



## Monthly Feature

## Mining Exploration and Development in Western Canada

Mining activity in western Canada has enjoyed something of a renaissance in recent years. Soaring demand for metals and other minerals in Asia in the early- to mid-2000s drove up commodity prices and dramatically increased the value of mineral production in the West.

High prices have not only made our resources more valuable, they have also contributed to a boom in exploration and the development of new mining projects in the West. From a recent trough of \$93 million in 2001, investment in mining exploration and deposit appraisal in western Canada soared to more than \$1.0 billion in 2008. These figures are over and above planned expansions to existing mines.

The global recession has triggered something of a pullback in exploration activity since 2008, but mining companies in the region have remained active. Mining exploration intentions in western Canada for 2011 are estimated at \$856 million, the third highest level on record. More than half of that amount, just under \$494 million, is in BC, with Saskatchewan accounting for most of the remainder (\$272 million).

While it takes many years for a mine to grow from the prospecting to the commercial production stage, the surge in mineral exploration is beginning to yield results. Production has begun in a number of new deposits and several more are in the advanced development stages. These projects are poised not only to add capacity in areas of existing production, but also to expand the range of resources produced in the West.

In BC, exploration and development is centred on metals—notably copper, gold and silver—and coal. Most recently, the Copper Mountain Mining project near Princeton, the first new major metals mine in BC in more than a decade, began full-scale production. That mine is expected to produce 2.27 billion kilograms of copper over its estimated 17-year lifespan.

In Saskatchewan, exploration and development activity has concentrated on uranium and potash. Saskatchewan has two new uranium projects and three new potash deposits under development, not including several existing potash mines that are expanding their production capacity. There is also a pair of diamond mines in the works in Saskatchewan, the first in the western provinces.

For its part, the mining sector in Manitoba is focused on metals. The province opened a new nickel and a new gold mine in 2009 and development is underway on several other base-metal and precious-metal veins. Compared to the other western provinces, Alberta's exploration spending is negligible.

Just as new mining capacity is coming online in western Canada, uncertainty has crept back into the global outlook for commodities. Renewed concerns about a double-dip recession in the United States, sovereign debt issues across the developed world, and a possible real estate bubble in China all pose a threat to global economic growth and could severely undercut demand for raw materials. It remains to be seen whether the global economy can overcome these threats and allow the recent boom in mineral exploration and development in western Canada to continue.

BC accounted for  
**48.9%**  
of all mineral exploration  
expenditures in western  
Canada in 2010.

EXPLORATION AND DEPOSIT APPRAISAL EXPENDITURES IN WESTERN CANADA  
(\$ MILLIONS)

|                 | BC    |       | Alberta |      | Saskatchewan |       | Manitoba |      |
|-----------------|-------|-------|---------|------|--------------|-------|----------|------|
|                 | 2010p | 2011  | 2010p   | 2011 | 2010p        | 2011  | 2010p    | 2011 |
| Base metals     | 107.7 | 130.4 | 0.3     | 1    | 0.9          | 6.5   | 52.7     | 48.7 |
| Precious metals | 164.1 | 261.1 | 0.3     | 0.7  | 9.4          | 10.6  | 24.4     | 24.5 |
| Uranium         | —     | —     | —       | —    | 104.8        | 115.4 | —        | 0.5  |
| Diamonds        | 0.1   | 0.2   | 1.3     | —    | 14.2         | 6.8   | —        | —    |
| Others          | 69.4  | 102.1 | 12.4    | 12.7 | 133.7        | 132.1 | 2.1      | 3    |
| Total           | 341.3 | 493.7 | 14.3    | 14.4 | 262.9        | 271.5 | 79.3     | 76.8 |

Source: Natural Resources Canada

Note: p=preliminary; \*spending intentions. "Others" include coal, potash, iron and other metals and non-metals.

## DID YOU KNOW?

With total output valued at \$7.1 billion in 2010, mineral production in Saskatchewan is higher than in any other province except Ontario. Saskatchewan is the world's largest producer of potash, accounting for about 30% of global production. It is also the second largest producer of uranium in the world, behind only Kazakhstan.

Potash companies in Saskatchewan are planning major expansions to their existing mines in the province. More than \$11.9 billion in spending is expected over the next 10 years.

BC is the largest copper-producing province in Canada, accounting for 38.9% of national output in 2010. It is also one of the world's leading suppliers of metallurgical coal used in the production of iron and steel. Nearly all BC's metallurgical coal is exported.

## BEHIND THE NUMBERS

The value of mineral production in western Canada has surged since 2000 on the back of higher commodity prices.

For the region as a whole, mineral production reached an estimated \$18.2 billion in 2010, an increase of nearly 150% compared to a decade earlier. Most of this increase was in Saskatchewan and BC, where the value of mineral output rose by an average of 12.0% and 9.4% per year, respectively, over that period. As a result, those two provinces accounted for 78% of mineral extraction in western Canada in 2010—about \$7.1 billion each.

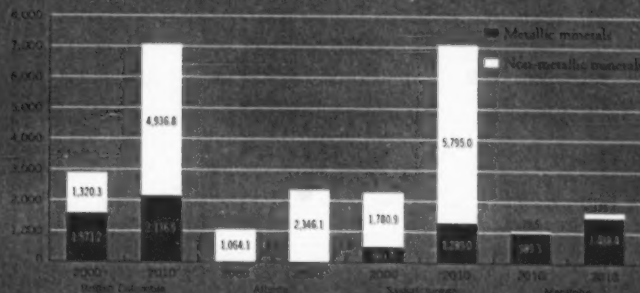
However, this growth has been mostly due to higher prices and not to increased output volumes. Prices for metals and minerals have risen by an average of 120% from 2000 to 2010. Meanwhile, although production of coal and potash has been stable or growing, production of many of western Canada's major metals, including copper, gold, zinc and nickel, has fallen over that period.

# 44%

of mineral production in Canada (in 2010) comes from the western provinces.



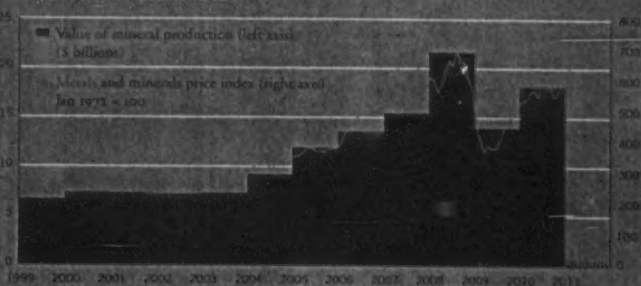
## VALUE OF MINERAL PRODUCTION IN WESTERN CANADA (\$ MILLIONS)



Source: Natural Resources Canada

Note: Non-metallic minerals include coal, potash, cement, salt, stone and gravel, among others. Fuels other than coal are not included.

## MINERAL PRICES AND MINING PRODUCTION IN WESTERN CANADA



Source: Bank of Canada and Natural Resources Canada

Note: Mineral production includes natural gas liquids from Saskatchewan in 2001 and does not include coal from Saskatchewan in 2002. Fuels other than coal are otherwise not included.

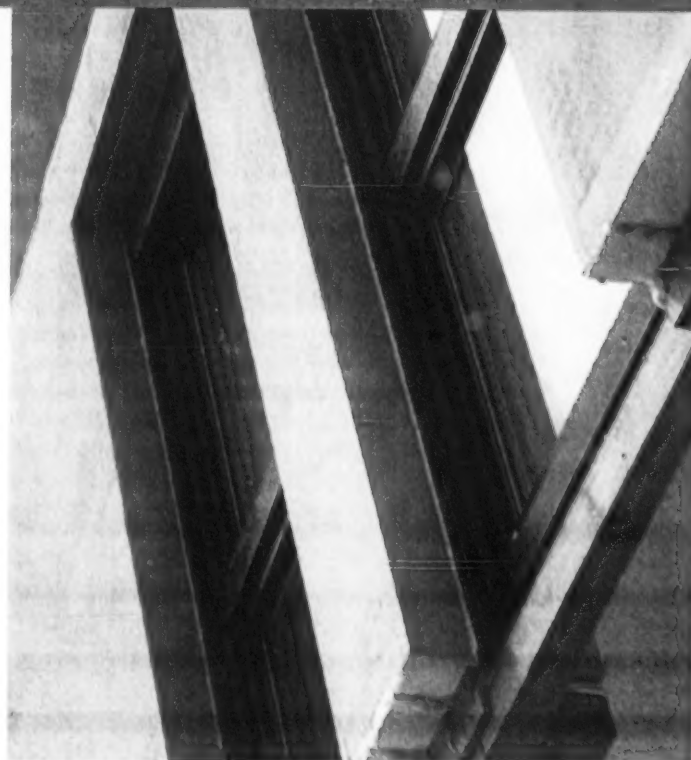
## Energy Focus: Manitoba

### Energy-efficient Construction

Energy efficiency measures have become an important part of conservation strategies. In particular, construction of energy-efficient buildings can play a significant role in reducing overall energy consumption.

Manitoba has emerged as a leader in this area. The province's most high-profile energy-saving building is Manitoba Hydro Place. Built in 2008, the project carried an estimated \$278 million price-tag, but also boasts some of the most efficient design principles in the world. Most notably, the entire building can be cooled via operable windows and the building is 66% more energy efficient than required by federal building regulations.

On a smaller scale, although somewhat more widespread, is Conquest Manufacturing Ltd. Based in Manitoba, the company builds modular homes designed to have a minimal ecological footprint. Conquest designs and manufactures the homes, which include a long list of energy-saving options, then delivers them to suitable sites in Canada and the US.





## OPINION

BY MICHAEL HOLDEN, SENIOR ECONOMIST

### Still Waiting for Clarity on Investment Rules



A little over a year has passed since BHP Billiton made its \$40 billion bid to acquire the Potash Corporation of Saskatchewan. When the federal government rejected the bid and BHP withdrew its pursuit of the world's largest potash producer, concerns were raised that the decision might make

foreign companies think twice before investing in Canada. It was widely suggested that changes were needed to improve the clarity and transparency of Canada's rules governing foreign capital investment. The government promised that it would provide that clarity in the "days ahead." We're still waiting.

At issue is the federal government's "net benefit" test for proposed foreign investments. Canadian law requires that a foreign interest demonstrate that any proposed investment in Canada above a certain value threshold provides a net benefit to the country. While it's hard to argue with the idea of ensuring foreign takeovers are in our best interests before they are allowed to proceed, the details of the present test are vague, to say the least.

Except in the case of certain cultural industries, the net benefits test is applied by the federal Industry Minister, with whom rests the discretion to accept or reject proposed investments. While the Minister considers factors such as the effect of the investment on economic activity in Canada, its effect on domestic competition and global competitiveness, and its compatibility with national policies, there are no precise evaluation criteria within these broad directives.

This lack of clarity was never an issue until recently because Canada had never formally rejected a proposed investment until 2008 - 23 years after the current process was first put in place. With that rejection came the first calls for clarity on how Ottawa interprets its own investment rules. The BHP rejection served only to amplify those voices.

On the surface, it may not seem that important, but clarity in investment rules is critical for western Canada. Our oil and gas sector in particular relies on foreign capital to help us develop our

resources. As the Canada West Foundation noted in an earlier issue of *Currents*, the BHP bid also demonstrated the attractiveness of our mining industries. Foreign companies that wish to invest in the region need to have confidence in the investment review process and to know what conditions they must meet for an investment to be approved. As such, the federal government needs to make the process as transparent as possible, protecting Canadian interests without deterring otherwise welcome inward capital flows.

One way for the federal government to improve transparency and to send the message that Canada welcomes foreign capital is to reverse the onus on the net benefits test. Instead of requiring companies to demonstrate a net benefit (which itself implies that investments are bad unless proven otherwise), the onus could be placed on Ottawa to demonstrate the *absence* of a net benefit. In such a case, an investment would be rejected only when there is a demonstrably negative impact on Canada.

At this point, it's anyone's guess as to the cause of the delay in clarifying Canada's investment rules. The most innocuous explanation is political circumstances and timing. The challenge of passing legislation through a minority government last fall and winter, followed by a spring election and then the summer recess may be all that accounts for the delay.

A more concerning possibility is that the federal government is content with the net benefits test as it stands and is hoping the issue blows away. In fact, it's easy to imagine that the present criteria for the net benefits test are intentionally vague, allowing Ottawa the flexibility to interpret the legislation according to the unique circumstances of each case.

Retaining this flexibility may seem attractive from a policy standpoint, but it could have long-term implications for Canada's economic competitiveness. If our investment rules are seen to be unclear or, worse yet, arbitrary, foreign companies could pass Canada over in their search for investment opportunities around the world. We need to start seeing some progress on this issue.

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